

No. 10/ 17 /DPM

Jakarta, March 31, 2008

CIRCULAR LETTER

To

ALL SHARIA COMMERCIAL BANKS AND SHARIA DIVISIONS

Subject : Procedures of Repo Bank Indonesia Sharia Certificate
Transaction with Bank Indonesia

In relation with the enactment of Bank Indonesia Regulation Number 10/11/PBI/2008 dated March 31, 2008, concerning Bank Indonesia Sharia Certificate (State Gazette of the Republic of Indonesia Number 50 of 2008, Supplement to the State Gazette of the Republic of Indonesia Number 4835), it is deemed necessary to enact provisions concerning Procedures of Repo Bank Indonesia Sharia Certificate Transaction with Bank Indonesia as follows.

I. GENERAL PROVISIONS

Terminologies used in this Bank Indonesia Circular Letter are defined as follows.

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting business based on Sharia Principles, including conducting business on conventional basis and under Sharia Principles simultaneously.
2. Sharia Commercial Bank, hereinafter to be referred to as BUS, is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business based on Sharia Principles.

3. Sharia ...

3. Sharia Division, hereinafter to be referred to as UUS, is :
 - a. a business unit in a conventional bank head office performing functions as the parent office of Sharia branch offices and/or Sharia units; or
 - b. a business unit in a conventional branch office of foreign bank performing functions as the parent office of Sharia sub-branch offices and/or Sharia units.
4. Sharia Principles are the Sharia Principles as referred to in Article 1 number 13 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.
5. Bank Indonesia Sharia Certificate, hereinafter to be referred to as SBIS, is a short-term securities denominated in the rupiah issued by Bank Indonesia based on Sharia Principles.
6. Bank Indonesia – Real Time Gross Settlement System, hereinafter to be referred to as BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the rupiah with settlement in real time and on individual per transaction basis.
7. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that facilitates transaction with Bank Indonesia including its administration and electronic securities administration, seamlessly interconnected among participants, the Operator, and the BI-RTGS System.
8. Repurchase Agreement Transaction of SBIS, hereinafter to be referred to as Repo SBIS, is a transaction of loan extended by Bank Indonesia to BUS or UUS with SBIS as collateral (collateralized borrowing).
9. Repo SBIS Fee is a financial penalty (*gharamah*) stipulated by Bank Indonesia in Repo SBIS because BUS or UUS fails to fulfill the term of SBIS purchasing agreement.
10. *Qardh* is a loan agreement without any repayment services requiring the debtor ...

debtor to repay the principal all at once in a specified term.

11. *Rahn* is a collateral delivery from BUS or UUS (*rahin*) to Bank Indonesia (*murtahin*) as a guarantee to obtain *Qard*.
12. Securities Account is an account with the BI-SSSS owned by BUS or UUS which is used for the registration of SBIS ownership.
13. Demand Deposit Account is a rupiah account with Bank Indonesia owned by BUS or UUS.
14. Securities Settlement is a debiting and crediting on Securities Account through the BI-SSSS in administration of transactions with Bank Indonesia and administration of SBIS.
15. Fund Settlement is a debiting and crediting on Demand Deposit Account and/or other accounts with Bank Indonesia through the BI-RTGS System in administration of transactions with Bank Indonesia and administration of SBIS through the BI-SSSS.
16. Delivery Versus Payment, hereinafter to be referred to as DVP, is a Securities transaction settlement by conducting Securities Settlement and Fund Settlement simultaneously.
17. Commercial Bank Daily Report, hereinafter to be referred to as LHBU, is a report prepared and submitted by BUS or UUS to Bank Indonesia on daily basis.

II. GENERAL REQUIREMENTS

1. Any BUS or UUS shall propose Repo SBIS to Bank Indonesia.
2. Any BUS or UUS shall propose Repo SBIS if the BUS or UUS is not being under imposition of prohibition of Repo SBIS proposition.
3. Any BUS or UUS shall propose the Repo SBIS as referred to in number 1 after signing up an Agreement on the Collateralization of SBIS in purpose of Repo SBIS (as the example presented in Appendix 1), which constitutes an inseparable part from this Circular Letter, and submit

supporting ...

supporting requisite documents to Bank Indonesia.

4. The agreement as referred to in number 3 shall be signed up when the BUS or UUS proposes Repo SBIS for the first time and shall continue to be in effect as far as there is no change of contents and data of the supporting documents.
5. Bank Indonesia shall extend Repo SBIS to BUS or UUS at an amount of no more than the nominal value of the SBIS under collateral.
6. Repo SBIS maturity is 1 (one) working day.
7. If a Repo SBIS is conducted on 1 (one) working day prior to a holiday, the Repo SBIS maturity date shall be stipulated the following working day.
8. Bank Indonesia shall open a Repo SBIS window time which shall be announced through the BI-SSSS and/or LHBUS System.
9. Any SBIS collateralized to Bank Indonesia shall hold a remaining maturity of no less than 2 (two) working days upon Repo SBIS maturity.
10. The SBIS as referred to in number 9 shall not be under collateralization to Bank Indonesia.
11. Any BUS or UUS may only propose Repo SBIS at an amount of no more than the nominal value of SBIS in hand on 1 (one) working day prior to the date of Repo SBIS.
12. Any BUS or UUS is required to hold adequate SBIS series in its Securities Account for Securities Settlement of SBIS no later than the Repo SBIS window time closing on the Repo SBIS date (first leg).
13. Any BUS or UUS is required to hold an adequate balance in its Demand Deposit Account for Fund Settlement in SBIS redemption and Repo SBIS Fee upon Repo SBIS maturity (second leg).
14. The Repo SBIS Fee as referred to in number 13 shall be stipulated at the amount of applicable BI-Rate at Repo SBIS proposition added with a margin of 300 (three hundred) basis points with the formula :

Repo ...

$$\text{Repo SBIS Fee} = (\text{BI Rate} + 300\text{bps}) \times (t \div 360) \times (\text{Repo SBIS Nominal Value})$$

where t is the number of Repo SBIS days

15. Bank Indonesia may change the margin as referred to in number 14 which shall be announced through the BI-SSSS, LHBUS System, and/or other facilities stipulated by Bank Indonesia before the Repo SBIS window time opens at the latest.
16. The number of days in the calculation of Repo SBIS Fee as referred to in number 14 which has to be paid by BUS or UUS shall be counted by calendar day.
17. Any Securities Settlement and Fund Settlement in Repo SBIS shall be conducted on the same working day as the transaction (same day settlement) by DVP mechanism.
18. Repo SBIS fund settlement value shall be based on the nominal value of SBIS under collateral, Repo SBIS Fee, and remaining maturity of SBIS. (An example of the calculation of Repo SBIS is presented in Appendix 2).
19. Any BUS or UUS proposing Repo SBIS shall be accountable for the validity of Repo SBIS data submitted.
20. Bank Indonesia may change or close Repo SBIS window time which shall be announced through the BI-SSSS, LHBUS System, and/or other facilities as stipulated by Bank Indonesia on 1 (one) working day prior to the change or closing of window time at the latest.

III. REQUISITE DOCUMENTS OF REPO SBIS PROPOSITION

1. Any BUS or UUS shall propose Repo SBIS as referred to in point II.1 after submitting requisite documents of Repo SBIS proposition together with a covering letter.
2. The documents as referred to in number 1 shall include :
 - a. Agreement on the Collateralization of SBIS in purpose of Repo SBIS in duplicate which shall be adequately stamped and signed up by the

Board ...

Board of Directors of the Bank or official of the Bank authorized by the Board of Directors with a power of attorney which forms the basis for Bank to propose Repo SBIS;

- b. Photocopy of Bank Statutes; and
 - c. Photocopy of valid personal identity, such as Resident's Identity Card (KTP) or passport of the Board of Directors, Chief Executive Officer (CEO), and/or official of the Bank granted with authority to sign up the agreement as referred to in number 2.a.
3. For UUS in particular, the agreement as referred to in number 2.a may be signed up by UUS official based on a power of attorney granted by the Board of Directors of the Bank.
 4. The documents as referred to in number 2 shall be submitted to Bank Indonesia, c.q. Directorate of Monetary Management - Monetary Operation Bureau (DPM-BOpM), Jl. M.H. Thamrin No. 2, Jakarta 10350.
 5. Bank Indonesia shall notify BUS or UUS on approval of Repo SBIS proposal after the complete and correct documents as referred to in number 2 are received.
 6. The notification as referred to in number 5 shall be delivered by letter or through the BI-SSSS.

IV. PROCEDURE OF REPO SBIS PROPOSITION

1. Bank Indonesia, c.q. DPM-BOpM, shall announce applicable Repo SBIS Fee and maturity through the BI-SSSS and/or LHBUS System before the Repo SBIS window time opens at the latest (T+0).
2. The Repo SBIS window time shall be stipulated from 4.00 p.m. up to 5.00 p.m. (western Indonesia standard time) every working day.
3. Any BUS or UUS shall propose Repo SBIS directly through the BI-SSSS during the window time as referred to in number 2, by stating the Repo SBIS nominal amount and collateralized SBIS series.

4. The ...

4. The procedure of Repo SBIS proposition through the BI-SSSS as referred to in number 3 shall refer to regulatory provisions concerning BI-SSSS.

V. SETTLEMENT

1. Bank Indonesia, c.q. Directorate of Monetary Management - Monetary Management Transaction Settlement Division (DPM-PTPM), shall conduct Securities Settlement and Fund Settlement of Repo SBIS through the BI-SSSS by the mechanism of transaction by transaction settlement (gross to gross).
2. The Securities Settlement and Fund Settlement of Repo SBIS as referred to in number 1 shall comprise :
 - a. Securities Settlement and Fund Settlement for SBIS collateralization (first leg).
 - 1) On the Repo SBIS date DPM-PTPM shall conduct a first leg settlement after the Repo SBIS window time closes.
 - 2) The first leg settlement value as referred to in number 1) shall amount to the value of Repo SBIS with the same value as the value of the SBIS under collateral.
 - 3) The first leg settlement shall be conducted by debiting Securities Account amounting to the nominal value of collateralized SBIS series and crediting Demand Deposit Account at the amount of the Repo SBIS value.
 - 4) If the nominal value of the collateralized SBIS series in Securities account is inadequate for the first leg settlement, the BI-SSSS shall automatically cancel the first leg settlement.
 - 5) The cancellation of the first leg settlement as referred to in number 4) shall only be exercised on Repo SBIS with inadequate SBIS collateral nominal value.
 - 6) If the cancellation of the first leg settlement occurs more than 1

(one) ...

(one) time on a same day, the cancellation of the first leg settlement shall be counted 1 (one) time.

- 7) Any BUS or UUS shall be imposed sanction for the cancellation of the first leg settlement as referred to in number 4).

b. Fund Settlement and Securities Settlement for Repo SBIS redemption (second leg)

- 1) A second leg settlement shall be automatically conducted at the BI-SSSS opening on Repo SBIS maturity date.
- 2) The second leg settlement value shall be calculated at the amount of the first leg settlement value added with a Repo SBIS Fee.
- 3) The second leg settlement shall be conducted by debiting Demand Deposit Account amounting to the second leg settlement value as referred to in number 2) and crediting Securities Account at the nominal value of the collateralized SBIS.
- 4) If a BUS or UUS does not hold an adequate balance in its Demand Deposit Account for Repo SBIS redemption settlement up to the BI-RTGS System cut-off warning, the BI-SSSS shall automatically cancel the second leg settlement.
- 5) The cancellation of the second leg settlement shall only be exercised on Repo SBIS which has been mature and does not hold adequate funds.
- 6) If the cancellation of the second leg settlement occurs more than 1 (one) time on a same day, the cancellation of the second leg settlement shall be counted 1 (one) time.
- 7) Any BUS or UUS shall be imposed sanction for the cancellation of the second leg settlement as referred to in number 4).
- 8) In order to fulfill BUS or UUS liabilities in redemption of mature Repo SBIS due to the cancellation of the second leg settlement, Bank Indonesia shall :

a) debit ...

- a) debit Demand Deposit Account to settle Repo SBIS Fee; and
 - b) settle redemption of collateralized SBIS series before maturity (early redemption) automatically through the BI-SSSS.
- 9) If the early redemption result is inadequate, Bank Indonesia shall debit Demand Deposit Account amounting to the shortage of BUS or UUS liabilities to Bank Indonesia.
- 10) If Bank Indonesia exercises an early redemption, Bank Indonesia shall pay SBIS rights to BUS or UUS up to the occurrence of the early redemption.
- (An example of calculation of payment of SBIS rights in early redemption is presented in Appendix 3).

VI. SANCTIONS

1. Any BUS or UUS failing to fulfill liabilities as referred to in point V.2.a.4) and point V.2.b.4) shall be liable to sanctions in the form of :
 - a. Written warning, with a copy to :
 - 1) Directorate of Sharia Banking (DPbS), if the sanction is imposed on a BUS or UUS which head office is located in the working area of Bank Indonesia Head Office; or
 - 2) Bank Supervision Team of local Bank Indonesia Regional Office, if the sanction is imposed on a BUS or UUS which head office is located in the working area of Bank Indonesia Regional Office; and
 - b. Financial penalty of 1‰ (one per thousand) of the cancelled settlement value with a maximum amount of Rp1,000,000,000.00 (one billion rupiah) for each cancellation, and
 - c. Prohibition of proposition for Repo SBIS for 5 (five) following working days and a temporary termination of participation in SBIS auction up to the auction of the following week if the BUS or UUS

has ...

has been imposed sanction of written warning as referred to in point VI.1.a for the third time within of 6 (six) months.

2. The counting of 3 (three) time written warning as referred to in point 1.c shall also count SBIS purchase by the BUS or UUS which is declared cancelled.
3. The letter of warning as referred to in point VI.1.a. and notification on the sanction as referred to in point VI.1.c shall be delivered on 1 (one) working day after the cancellation of transaction.
4. The imposition of sanction of financial penalty as referred to in point VI.1.b. shall be executed by debiting Demand Deposit Account of BUS or UUS that is imposed sanction on 1 (one) working day after the cancellation of settlement through the BI-SSSS.

VII. CONCLUDING PROVISIONS

Provisions in this Bank Indonesia Circular Letter shall come into force as of March 31, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF

DIRECTOR OF MONETARY MANAGEMENT